Public Private Partnerships

September 27, 2012

Agenda

- Overview of Public Private Partnerships
- Successful PPP administrative models
- US experience
- User fee project case study
- Concluding thoughts

Overview of Public Private Partnerships

- **Collaboration between the public and private sectors to deliver public infrastructure projects which typically share the following features:**
  - A long-term contract based on the procurement of services, not assets
  - A transfer of certain risks to the private sector, notably with regard to design, O&M and/or finance
  - A focus on whole life cycle cost implications
  - The application of private equity financing and
  - The use of payments to the private sector which reflect the services delivered
    - by users through user charges such as tolls and/or
    - by the public procuring authority such as milestone payments, availability payments or shadow tolls

- **Optimal risk sharing with the private sector delivers better "value for money" for the public sector and ultimately the end user**

Overview of Public Private Partnerships

- Modern day PPPs trace back to Australia (1980s) and the UK (1992)

- Canada and other European nations quickly followed – between 1990 and 2009 more than 1,300 PPP contracts were signed in the EU, representing a capital value of more than €250 billion

Successful PPP Administrative Models

- Promote public policy to encourage PPPs
- Develop procedures involved in the creation of a PPP, including identifying projects, requesting proposals, selecting the proponent, negotiating the contract and monitoring contract compliance
- Enact uniform procedures that guarantee the effectiveness of processes and encourage competition among proponents
- Centralize functions to give the private sector the certainty and confidence of the process
- Build strong relationships with private sector partners such as contractors, designers, operators, investors and the financial services sector

Successful PPP Administrative Models

- Infrastructure UK
- Infrastructure Ontario
- Partnerships Victoria
- Puerto Rico Public-Private Partnerships Authority

Puerto Rico Public-Private Partnerships Authority

- Any government entity is authorized to establish PPPs with relation to any function, service, or facility
- P3A undertakes studies to determine which projects are best suited to be delivered as PPPs
- P3A establishes a committee for each project composed of
  - The President of the Government Development Bank or their representative
  - An employee of the partnering government agency with direct responsibility for the project
  - One member of the Board of Directors of the partnering government agency
  - Two officials from any government agency selected by P3A for their knowledge and experience
- The committees are responsible for the selection of proponents and the negotiation of contracts for their particular project
- Projects under the new model
  - PR22 & PR5 toll roads – financial close June 2011
  - Luis Munoz Marin International Airport – contract awarded July 2012
  - Nuevo Comienzo social treatment center – shortlisted SOQ submissions August 2012

US Transportation P3s

Chicago Skyway Bridge
Illiana Expressway

Northwest Parkway
Eagle
US 36
I-70

SR 91
SR 125
Presidio Parkway
CA HSR
Xpresswest
Highway Goods Movement
710 North
710 South
High Desert Corridor
Sepulveda Pass Corridor

Knik Arm Bridge

Indiana Toll Road
East End Crossing
Illiana Expressway

NITC (DRIC)

Brent Spence Bridge

Goethals Bridge

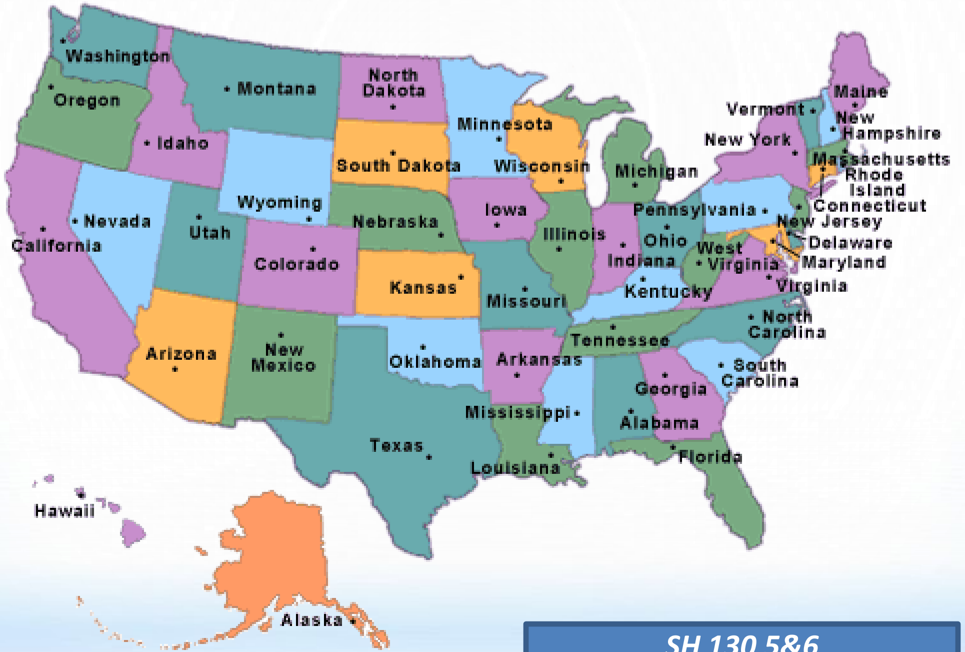
Dulles Greenway
Pocahontas Parkway
Capital Beltway
MT / DT / MLK
I-95 (NOVA)
I-64
Patriot’s Crossing
I-95 (SOVA)

Mid-Currituck Bridge
I-77 Hot Lanes

I-595
Port of Miami Tunnel
I-4

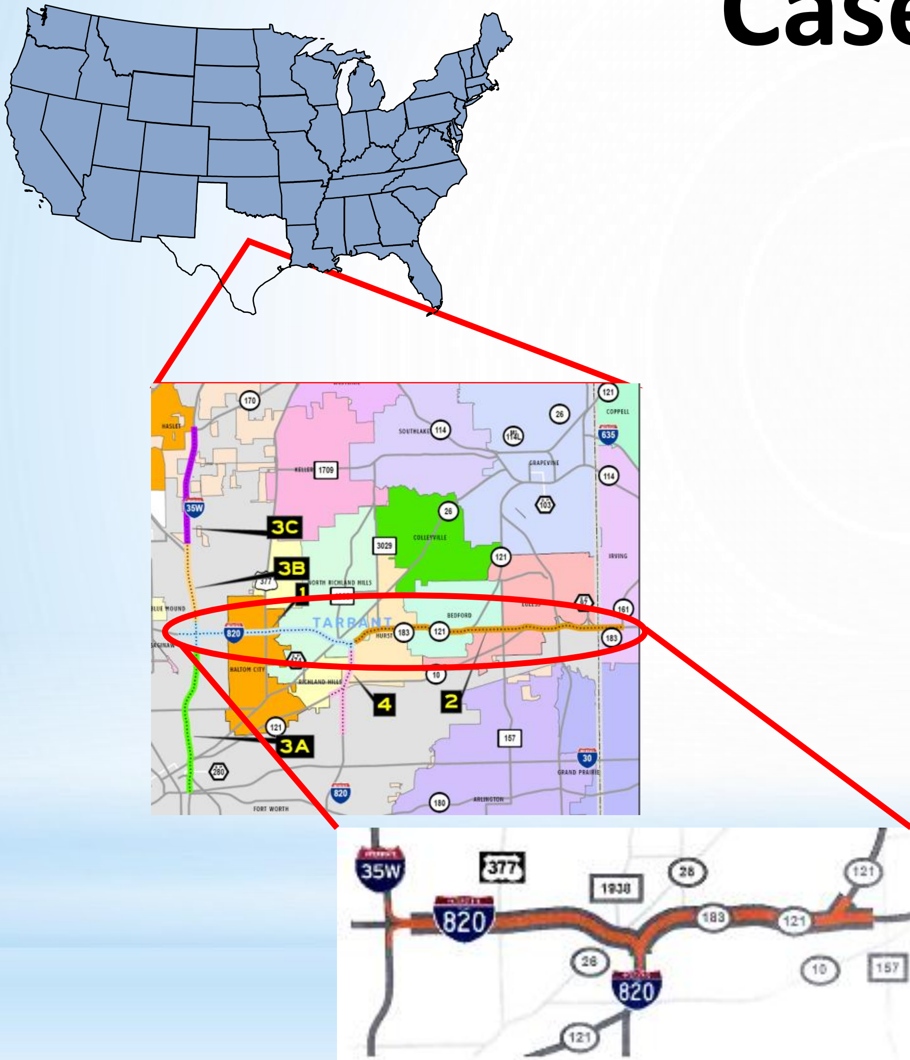
PR22 / PR5
Luis Munoz Marin Airport

SH 121 (Texas)
Pennsylvania Turnpike
West by Northwest (Georgia)



SH 130 5&6
North Tarrant Express
I-635 (LBJ)
SH 183
SH 288
SH 249
Bergstrom Expressway

North Tarrant Express Case Study



- Located in Ft. Worth, North Central Texas
- Total project cost of $5 billion
- Scope of work divided among 6 major segments: 1, 2, 3A, 3B, 3C and 4
- Segment 2 further split into 2A, 2B, 2C & 2E
- Total of 36 miles / 430 lane miles
- Project includes 2 contracts (a concession and a PDA agreement) due to feasibility, political and environmental status reasons

Term & Scope of Work

- **The concession scope of work includes:**
  - Reconstruction of existing free lanes
  - Addition of new free lanes
  - Addition of new managed (toll) lanes
  - Addition of a partial interchange
  - Ongoing operations and maintenance for existing and new facilities for a total of 52 years

- **A pre-development agreement (PDA) entails developing the remainder of the corridor with the winning bidder having a right of first negotiation. The scope of work includes:**
  - Predevelopment work including preparation of a schedule, development plan and a master financial plan
  - Providing technical support services in connection with environmental process
  - Term is for 10 years, with TxDOT having an option to extend by 5 years

Procurement Approach

- Following initial analysis and interaction with the market, the initial base scope was deemed unfeasible.
- The concession contract was re-scoped in order to allow for:
  - A minimum scope of work under Segment 1
  - Plus up to nine optional project elements
- Each of the elements of the project had pre-determined values for the evaluation process.

Procurement Approach

- Due to limited public funds, approach focused on maximizing assets on the ground subject to available funds.
- Financial proposals for concession contract based on hard money bids for a base scope of work.
- Bidders were required to submit binding prices until 2030 for elements of the project along the initial base scope of work, as well as binding price for IH35W/IH820 interchange until 2015.
- Addition of managed or free lanes required latest by the end of 2030 or earlier if performance triggers are reached – at no additional cost to TxDOT. Triggers are linked to financial performance.
- Any remaining elements would be part of the pre-development agreement. Pricing based on cost of initial pre-development work under this contract.

Winning Bid

- Two bids were submitted and NTEMP was the winning bidder
  - Cintra, Meridiam Infrastructure, Dallas Police & Fire Pension Fund System, Ferrovial
- Proposal based on delivering nearly three times the minimum required project scope

Concluding Thoughts

Issue	Response
PPPs are expensive, tax exempt financing is cheaper.	Financing is one component of a PPP structure. Need to take into consideration the interplay of all risks that are transferred to the private sector.
PPPs allow the private sector to cut corners.	A well structured PPP contract will obligate measurable operating standards such as cleanliness, incident detection and response, and availability.
PPPs are the same as privatization.	In a PPP, the title of the property remains with the public sector. A Public Private Partnership is a lease.
PPPs allow the private sector to charge more for essential public services.	A well structured PPP contract will define how much the public may be charged for the use of the infrastructure or service.